Incentives, Penalties Proposed for Energy-Efficiency Programs

A proposal by the California Public Utilities Commission would reward -- and penalize -- utilities based on the amount of power they conserve, potentially saving ratepayers nearly $2.4 billion and paying shareholders another $323 million, according to its authors.

It would also cut about 3.4 million tons of carbon dioxide emissions in 2008, around the equivalent of taking 650,000 vehicles off the roads, wrote CPUC Commissioner Dian Grueneich and Administrative Law Judge Meg Gottstein in their joint decision proposed Aug. 9 [R06-04-010].

The CPUC has already committed $2.2 billion in ratepayer funds for 2006-2008 energy-efficiency programs run by Southern California Edison, San Diego Gas & Electric and Pacific Gas & Electric.

Touting energy efficiency as smart business that combats climate change and saves ratepayers money, the proposal noted that investor-owned utilities can more easily earn money for shareholders by investing in supply resources than by saving energy. The proposal aims to create enough incentives to make energy-efficiency efforts pay off.

The ruling sets up a mechanism to reward or penalize companies based on energy-efficiency savings, verified by the CPUC's Energy Division and contractors. Shareholder earnings would accrue at a 9-percent sharing rate if utilities meet 85 percent of the commission's savings goals. If portfolio performance meets 100 percent of the goals, the rate would rise to 12 percent.

Ratepayers would get most of the economic benefits. For instance, if the utilities meet 100 percent of the savings goals for the 2006-2008 cycle verified at $2.7 billion in savings, $2.4 billion would benefit ratepayers and shareholders would get $323 million.

The greater of two penalty mechanisms would apply for lackluster savings of 65 percent or lower. "Per-unit" penalties would be 5 cents/KWh, 45 cents/therm and $25/KW for each unit below the savings goal. A cost-effectiveness guarantee would obligate shareholders to pay ratepayers dollar-for-dollar for negative net benefits.

Under the mechanisms, penalties could be $144 million for all utilities combined if performance falls 65-percent below goals, or $238.5 million for below 50 percent of goals.

The rule caps earnings and losses for shareholders at $500 million. A deadband range -- achieving between 65 percent and 85 percent of the goals -- would garner neither benefits nor penalties.

Also last week, Gottstein ruled in the same case to set annual EE reporting requirements. To give California decision-makers and the public yearly updates on the state's energy-efficiency portfolio, the CPUC will make the reports available on its Web site.

Those rules set deadlines and require details on existing and planned programs, energy and monetary savings, the percentage of state goals met the amounts of nitrogen oxides, sulfur oxides and particulate-matter emissions, and the costs of administering, marketing and enacting the efficiency programs.

Utilities must also detail bill impacts, the savings for various end uses, such as refrigeration and lighting, and the contributions to the state's green-building initiative, which aims to cut energy use in state-owned buildings 20 percent by 2015.

SDG&E plans to comment on the proposal to specify the savings goals and measurement tactics to reach them, according to spokesperson Rachel Laing.

"We're pretty happy with it," she said. "It's the solution we've pushed for."

Consumer groups have argued that ratepayers already fund the energy-efficiency programs and that less of the savings money should benefit utilities. Utilities have pushed for more of the savings money as incentives for shareholders. The two sides have also disagreed over where the starting point for incentives should begin. The Utility Reform Network called the incentives in last week's ruling a bribe to get utilities to do what they need to do anyway.

"The goal should be to achieve the best energy efficiency" for California, said TURN attorney Marcel Hawiger.

The watchdog group wants the CPUC to consider methods that other states have used, including smaller incentives and penalties with better-defined goals. Not all energy-efficiency measures produce the same outcomes, Hawiger said, and utilities may focus on easier programs, such as selling more efficient light bulbs, instead of tackling tougher, more effective efforts like limiting air-conditioner use during peak times.

But the reporting requirements will help, according to TURN attorney Hayley Goodson.

"It's great," Goodson said, noting that utilities must now detail savings from lights, refrigerators, smart thermostats and various programs.

More details in quarterly and annual reports on how those measures run and save energy can help future planning, Goodson said. Utilities had tracked and reported that information, but under broader categories rather than individual programs.

"It helps us better understand what we can expect of these programs in the future," Goodson said.

The CPUC could vote on the proposal at a Sept. 20 meeting.

- Hilary Corrigan